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BACKGROUND

The federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA, commonly known as the federal Welfare Reform Act) revised Title IV -D of the Social Security Act to require that each state operate a state disbursement unit to centrally collect and disburse certain child support payments. Federal law requires that state disbursement units must be able to process all payments received with complete information within two business days after receipt if sufficient information identifying the payee is provided. The Family Independence Agency (FIA) implemented the Michigan State Disbursement Unit (MiSDU) to centrally collect and disburse child support payments as required by federal child support enforcement program requirements. Affiliated Computer Services, State and Local Solutions, Inc. (ACS) is the vendor that operates the MiSDU under a contract with the FIA. MiSDU receives child support payments in a variety of methods including paper payments (checks), electronic fund transfers (EFT), electronic data interchange (EDI), and Internet payments (WebChek).

ACS processes child support receipts using its own proprietary software systems. After receipts are processed, a receipt file is created at the end of the day and sent to the federally certified Michigan Child Support Enforcement System (MiCSES). MiCSES processes the receipt file and determines appropriate allocation and distribution of the funds based on federal regulations. Disbursement of the payments is accomplished by generating a support check or direct deposit transaction and sending it to the payee or payee's bank. For check disbursements, a check print file is sent back to ACS, who in turn provides this file to its print vendor to print and send the warrants to the payee. For direct deposit disbursements, MiCSES creates an EFT file that is sent to Bank One, the State of Michigan's financial institution. Bank One then distributes the direct deposit payments to the appropriate payees' bank accounts via Automated ClearingHouse (ACH)

transactions. All receipt and disbursement transactions get posted on the MiCSES system, which is accessed by thousands of users to manage child support cases.

INTRODUCTION

Partly as a result of the power outage that affected the entire Northeastern United States on 8/14/03, ACS sent a duplicate receipt file to the Michigan Child Support Enforcement System (MiCSES) on 8/15/03. The duplicate receipt file, sent to and processed by MiCSES, resulted in 18,465 receipt transactions totaling $2,673,364.13 being inadvertently posted to the system. All of the receipt transactions had to be manually backed out of the system. The duplicate file caused the check disbursement and EFT disbursement files to be incorrect. The check and EFT transactions had to be manually rejected from the system and reissued.

ACS was able to stop the actual paper checks from being sent to the payees. Bank One did a reversal of the EFT (direct deposit) transactions in an attempt to recoup the funds from payees' bank accounts. However, 170 accounts failed the EFT reversal, resulting in $49,481.49 that Bank One was unable to recoup from the payees' direct deposit accounts. In addition, payees incurred approximately $12,400 in non-sufficient funds (NSF) fees in the days and weeks following the funds being inadvertently distributed to their bank accounts and subsequently reversed. ACS "made whole", or reimbursed, all payees that submitted claims for NSF fees and also the State for the funds that Bank One could not recoup from the payees' direct deposit accounts.

SCOPE

The FIA Office of Internal Audit performed a limited scope review of the issuance of duplicate child support payments that occurred at the MiSDU on August 15, 2003. The objectives of our review were to obtain facts regarding how duplicate payments occurred; determine what internal controls were in place during the time period and any new internal controls put in place to prevent duplicate child support payments; and to make recommendations to enhance internal controls, as necessary. Our review was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

We interviewed MiSDU staff and management and reviewed polices, procedures, incident reports and supporting documentation to obtain information regarding the background and controls in place at the MiSDU at the time the duplicate file incident occurred. We documented our understanding of the events, controls in place, financial impacts to MiSDU, and any impacts to custodial parent and employer/obligor accounts due to the duplicate payment incident. We provided recommendations to MiSDU management regarding controls that could be implemented or how current controls could be strengthened, to prevent a duplicate file incident from occurring in the future.

EXECUTIVE SUMMARY

Based on our review, we conclude that controls should be strengthened to ensure a duplicate file incident does not occur in the future.

Our review disclosed a reportable condition related to timely disbursement of child support payments (Finding 1). In addition, we noted internal control weaknesses related to disaster recovery/business continuity planning, automated controls within the

ACCoRD system, and backup power at the primary processing facility (Findings 2 through 4).

AGENCY RESPONSE

The Office of Child Support (OCS) agreed with Findings 1, 3, and 4. They partially disagreed with Finding #2.

For Finding #2 related to lack of a comprehensive Business Continuity/Disaster Recovery Plan, OCS disagreed that the MiSDU does not have a disaster recovery plan. OCS stated that a disaster recovery plan that is in accordance with their contract with the vendor is in place and has been tested.

For Finding #3 related to lack of automated controls in the ACCoRD system, OCS stated that changes to the vendor's system will not be made at this time due to the fact that the operation of the SDU is subject to re-bid through a Request For Proposal (RFP).

NOTE: In our opinion (Office of Internal Audit), the disaster recovery plan proof of concept proposal developed by the vendor was not "comprehensive" in nature and did not test all operational components in a manner to ensure that full operations could be resumed at the alternate processing site.

FINDINGS AND RECOMMENDATIONS:

Timely Distribution of Child Support Payments

1.   MiSDU did not distribute child support payments within two business days after receipt at MiSDU as required by federal statute.

      Section 454B of the federal Social Security Act, as amended, requires that:

In general . . . the State disbursement unit shall distribute all amounts . . . within 2 business days after receipt from the employer or other source of periodic income, if sufficient information identifying the payee is provided.

Based upon our review, the correct 8/15/03 receipt file (Friday) was not sent to MiCSES and processed until 8/19/03 (Tuesday). This resulted in receipts for Friday being disbursed to payees' on 8/20/03 (Wednesday), which is three business days after receipt. In addition, the 8/18/03 (Monday) and 8/19/03 (Tuesday) receipt files, though processed at the MiSDU on the day they were received, were not sent to MiCSES until 8/20/03 (Wednesday). This resulted in receipts for those days being disbursed to payees on 8/21/03 (Thursday), causing receipts for Monday to be disbursed 3 business days after receipt. Factors contributing to payments not being distributed in a timely manner include weaknesses in disaster recovery/business continuity planning, lack of automated controls within the ACCoRD system, and lack of backup power at the primary and secondary processing facilities (Findings 2 through 4).

MiSDU's failure to ensure compliance with the two-day distribution requirement could potentially result in federal financial penalties.

WE RECOMMEND that MiSDU correct the internal control weaknesses as noted in the following 3 findings to help ensure child support payments are distributed within two business days after receipt at the MiSDU as required by federal statute.

Comprehensive Disaster Recovery/Business Continuity Plan

2. Office of Child Support (OCS) did not require its contractor to develop and test a "comprehensive" business continuity and disaster recovery plan (DRP/BCP) to

ensure the continuity of information systems processing in the event of short-term or long-term processing interruptions.

The MiSDU contract requires that the contractor provide a full analysis and plan for disaster recovery within 45 days following the signing of the contract. The contract was signed in September 1999.

A DRP/BCP should include controls to ensure the continuity of service across a range of potential disruptions. A comprehensive plan should include coverage for relatively minor interruptions, such as temporary power failures, as well as major disasters, such as fires, natural disasters, or sabotage, that would require re-establishing operations at a remote location. These potential disasters would be identified in a risk assessment.

A DRP/BCP should also contain an updated and detailed description of all strategies, standards, procedures, schedules, and resources required to complete the recovery process. In addition, a plan should be reviewed and tested periodically to ensure that it will function as intended in the event of a disaster.

The contractor has developed and tested a Disaster Recovery System Proof of Concept Proposal document dated February 2002. The purpose of this document was to present a proof of concept proposal for the viability of a disaster recovery system. The proposal also gave an overview of the necessary components in the creation of a skeleton system. However, this Proof of Concept Proposal was not comprehensive in nature and did not address controls, standards, procedures, and resources to ensure the continuity of service across a range of potential disruptions, including short and long-term power outages, before and during an

actual disaster situation. The proposal sought to prove that shifting operations to the Pennsylvania backup site would be feasible. The proposal did not ensure that shifting operations to the backup facility could actually occur. The Proof of Concept Proposal also did not test all operational components, for example EFT, EDI, and Internet receipting, that occur at the MiSDU.

As evidenced by the power outage that occurred on August 14, 2003, lack of a comprehensive DRP/BCP contributed to ACS not being able to provide continuous operations during the power outage. In addition, lack of a comprehensive DRP/BCP contributed to a situation in which duplicate receipt files were processed and duplicate child support payments in the amount $1,494,418.11 were sent to payees.

WE RECOMMEND that OCS require its contractor to develop and test a "comprehensive" business continuity and disaster recovery plan to ensure the continuity of information systems processing in the event of short-term or long-term processing interruptions.

WE ALSO RECOMMEND that any future contracts with vendors to run the MiSDU contain language requiring a comprehensive business continuity and disaster recovery plan to be approved by FIA OCS as part of the deliverables for the contract.

Automated Controls within ACCoRD

3. Automated controls were not in place in the Automated Centralized Collection Receipt and Deposit System (ACCoRD) to prevent an out of balance receipt file from being transmitted to MiCSES.

Automated system controls are more reliable than manual controls or human intervention and provide greater assurance that business operations are carried out as intended.

The primary cause of duplicate child support payments being issued to payees on 8/15/03 was that an out of balance duplicate daily receipt file was sent to MiCSES. Management or supervisory staff is responsible for running the end of day system processes and manually sending the daily receipt file to MiCSES via file transfer protocol (FTP). Operations procedures require reports from the Transaction Management System (TMS) and ACCoRD systems to be in balance and signed off by the Operations Supervisor before sending the end of day receipt file to MiCSES. If reports are not in balance, the cause needs to be investigated and the problem remedied before the file is sent. The Operations Supervisor did not follow these manual procedures when he encountered an out of balance file on 8/15/03. There are no automated controls in the system to prevent the receipt file from being sent if these reports are out of balance.

As a result of the out of balance duplicate receipt file being sent to and processed by MiCSES, 18,465 receipt transactions totaling $2,673,364.13 were inadvertently posted to the MiCSES system. In addition to the receipt transactions, 11,486 check transactions totaling $3,309,394.66 and 4,560 EFT (direct deposit) transactions, totaling $1,494,418.11, were also inadvertently posted to the system. The direct deposit funds were actually sent to the payee's bank accounts and had to be reversed. Payees incurred approximately $12,400 in non-sufficient funds (NSF) fees in the days and weeks following the funds being inadvertently distributed to their bank accounts and subsequently reversed. All of the receipt transactions had to be manually backed out of the MiCSES system.

All of the check and direct deposit transactions had to be rejected and reissued in the system.

Lack of automated controls in the ACCoRD system to prevent an out of balance duplicate daily receipt file to be sent to MiCSES contributed to child support payments not being disbursed to payees within 2 days of receipt per federal statute. In addition, errors of this magnitude can lead to loss of goodwill and loss of confidence in the MiSDU's ability to run effective and efficient operations.

WE RECOMMEND that automated controls be implemented in the ACCoRD system to prevent an out of balance daily receipt file from being transmitted to MiCSES in the future.

Backup Power at Primary Processing Facility

4.   There is no backup power at the MiSDU main processing facility.

Adequately functioning backup generators ensure the continuity of information system processing capabilities in times of short or long-term power outages. Supplying backup power for a data center is considered an industry standard when information systems are required to process data within time limitations.

The MiSDU is the central location for receiving and distributing all of Michigan's child support payments. The Department of Information Technology's Data Center Operations (DCO) facility is the location of the MiCSES application and database servers. Many of the State's critical application servers and mainframes are housed at the DCO facility. The DCO facility is supplied by backup generators and maintains processing capabilities in times of power outage.

The Lansing area and many areas in the Northeastern United States experienced a power outage on 8/14/03 that lasted for at least 8 hours and in some cases several days. Due to the power outage, the MiSDU was unable to create and send its end of day receipt file for 8/14/03 to the MiCSES batch server for processing during the normal time frame.

Lack of backup power at the MiSDU main processing facility contributed to duplicate child support payments being issued to some payees and regular child support payments not being distributed in a timely manner in the days following the power outage of 8/14/03.

WE RECOMMEND that MiSDU obtain backup power in the form of backup generators or other adequate form to help to ensure that processing operations can continue in times of future power outages, and that child support payments can be distributed within two days of receipt per federal regulations.